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ESSAY

Fed Up With The Fed

By William Safire

WASHINGTON — William Miller has been to the Federal Reserve Board what Stansfield Turner has been to the C.I.A.: a disaster.

The nation is in the midst of an economic emergency. For the past quarter, inflation has been roaring along at an annual rate of 14 percent, triple the rate when President Carter took office. A Federal court has just rightly held that the cosmetic, "voluntary" price controls which the White House has been applying are unconstitutional. Action is needed urgently lest the unhealthy 1979 boom turn into an uncontrollable bust.

Yet the chairman of the Fed — charged with the responsibility of applying the monetary brakes to a runaway economy — has been blissfully convinced that inflation is going to take care of itself. The word that seeps out of the Fed these days is that the economy has entered a period of slow growth, that a "soft landing" is ahead, and that further money-tightening is not needed to bring the inflation rate down to its pre-Carter level.

Chairman Miller has bought President Carter's political rhetoric that a recession to cure inflation is "unacceptable." That pose is understandable for a politician, but a Fed chairman is given the independence to withstand political pressure so that he can take the temporarily painful steps to curb inflation.

Genial Bill Miller may ultimately be held responsible for a bust, but he is determined to avoid the blame for a recession this year. He sounds as if he plans to run for office. Anti-inflationary interest rates, he says, are "unbecoming, unwise and unnecessary." While paying lip service to restraint, he has shown by his actions that he is more concerned about unemployment than he is about inflation.

But it is double-digit inflation that is "unacceptable," more profoundly damaging to more American families than even an increase in unemployment. In this Miller era, prudence is foolish and thrift is insanity: any person who puts money in a savings bank is guaranteed to lose.

If a steelworker and his working wife want to put some savings away for a rainy day, they get 6 percent on their savings; an anti-savings tax policy takes 4 percent of that away; at today's 14 percent rate of inflation, they are losing 12 percent per year on the value of their savings.

By its inaction, Government is urging us to spend it now; the rainy day is every day. That adds to the feverish demand; that strips the banking system of capital from savings; most important, that systematic derogation of the habit of thrift corrupts the American character. Socialists must be exultant: prolonged inflation steadily redistributes wealth until everyone becomes moderately poor.

In today's emergency, the President gropes for a scapegoat: the oil companies, the weather, the profligacy of Americans. But the reasons for the Carter inflation are (1) his unwillingness to cut Federal spending to balance the budget and (2) the replacement of Arthur Burns with William Miller at the Fed, which caused the too-little, too-late tightening of money.

The man who persuaded Jimmy Carter to dump the experienced Burns and replace him with the inept Miller was Treasury Secretary W. Michael Blumenthal, who thought he would then have a Fed chairman who would follow his orders. But what he got was a Fed chairman who would follow Jimmy Carter's easy-money, populist philosophy past all economic sense.

Two months ago, as it became apparent that the Carter anti-inflation program was a joke, Blumenthal signaled to Miller to apply the brakes with a rate increase. But Chairman Miller, whose first act at the Fed was to vote ostentatiously against a rate increase, remained true to his ostrich form: recession was more of a danger than inflation. He flouted tradition by announcing his leave-it-loose-Bruce position before a Fed Open Market meeting, and dragged the Fed along with him; soon after, the Fed quietly accommodated the Treasury, but the rate increase had no useful psychological effect.

Here we have one of the great economic turnabouts of recent history: the Treasury, traditionally in favor of easy money to finance Government spending, is pleading with the Fed to apply the brakes on money to defend the dollar; while the Fed, traditionally the cautious restrainer of inflation, is now worried more about the immediate social effects of restraint.

The President, facing liberal discontent in his own party, cannot publicly call on Miller to do his job of slowing the economy, nor can he bring himself to slash spending. (Mr. Carter must wish he had Dr. Burns back — both to do the necessary job and to take the rap for doing it.) To induce a milder downturn quickly, he must turn to Treasury's Blumenthal, who has publicly declared he will depart next year, and who inflicted Miller on him in the first place.

That is why Mike Blumenthal has just been named undisputed head of the Carter "Steering Group" on inflation. It is as if the President had been forced to say: "You and your buddy got me into this, now get me out of it."